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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 002212

SIPDIS

STATE PASS USTR FOR NED SAUMS  
USDOC FOR 4520/ITA/MAC/ONE/PTHANOS

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TAGS: [ETRD](#) [IZ](#) [JO](#)

SUBJECT: QIZ'S WEATHERING WAR WELL - FOR NOW

REF: A. AMMAN 2072

[B](#). 01 AMMAN 5288

Classified By: AMBASSADOR EDWARD W. GNEHM, REASONS 1.5 (B,D)

[1](#). (u) This cable has been coordinated with Embassy Tel Aviv.

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SUMMARY  
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[1](#)2. (sbu) There is little evidence of systemic negative impacts on the QIZ's from the war, although there have been isolated instances of order cancellations. Although the government is concerned that cancellations may mount and new orders stall, more disconcerting to exporters was the days-long closure of the Sheikh Hussein bridge due to Israeli customs strikes. While we continue to be optimistic about the ability of QIZ's to get through the current crisis, the impact of the strikes is likely to encourage QIZ exporters to switch from QIZ to FTA exports, once tariff breaks equalize. End Summary.

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QIZ's REPORT FEW PROBLEMS FROM WAR  
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[1](#)3. (sbu) We have regularly canvassed QIZ exporters, park managers, and the Trade Ministry since the beginning of the war to track any impact on QIZ businesses. In the run-up to the war, Costandi Yaghnani of El Zay menswear (a suit manufacturer) informed us of a decision by one of his clients to cancel a substantial order. It remains unclear, though, after follow-up activities by the Embassy, Washington agencies, and the Jordanian Embassy in Washington, whether this cancellation was a result of war uncertainty or a more straightforward business decision.

[1](#)4. (sbu) We also received word from one QIZ exporter at Al Tajammouat industrial park outside Amman that several April orders from one of his U.S. importers had been canceled due to war uncertainty. This same exporter later told us that "the worst has passed," and that he is fully booked for May orders from the same client, and he expects a good summer season. He added that the lack of noticeable impact from the war on QIZ exports has served to bolster both importer and exporter confidence about continuing business.

[1](#)5. (sbu) Aside from these two cases, we have uncovered no significant negative impact from the war on current QIZ exports. Air and sea freight charges have increased, but insurance companies have not imposed war risk insurance. Sea and air ports remain open, and there has been no labor unrest or other demonstration activity at QIZ parks to slow the work of exporters (though exporters report a glum mood among Jordanian staff as a result of the war). We have heard from at least one park manager and one independent QIZ watcher that expressions of interest from potential new investors are still coming in, and the manager of the Al Tajammouat park tells us construction and make-ready for newly-contracted factory space continues on schedule. In addition, the regional Target representative based in Cairo told us her company continues to place orders in Jordan and views the QIZ initiative very favorably.

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PM VOICES CONCERN  
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[1](#)6. (c) Prime Minister Abul Ragheb told the Ambassador April 6 that an increasing number of reports were surfacing of canceled QIZ orders and reduced volumes of new orders (ref a). Trade Minister Bashir reiterated those concerns to the Ambassador on April 8. The Ambassador told both the PM and Trade Minister that we have received a few reports of order cancellations (noted above), but that the volumes were not yet unexpectedly high. The Ambassador assured the ministers that we are keeping close, regular tabs on QIZ developments, and that Washington agencies have already met with U.S. garment importers to impress upon them our continued support for the QIZ initiative. He added that both Washington agencies and the Embassy have offered to talk to any U.S.

importers who have concerns or questions about the QIZ's.

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STRIKES - THE REAL ISSUE  
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17. (sbu) Of far more concern to QIZ exporters is a strike by Israeli customs employees that has crippled traffic across the Sheikh Hussein bridge in both directions for more than a week. A number of QIZ exporters have complained to us that they are unable to import necessary Israeli product inputs to complete outstanding orders. One factory owner said he was temporarily operating at half-staff pending delivery of an order of Israeli zippers need to fill his 8% quota and finish his order. According to park managers, trucks loaded with outbound cargo are increasingly visible outside factories, where they have been waiting for several days to get clearance to cross to Israel to continue on to Haifa. Meanwhile, Israel's Deputy Head of Customs spoke out very strongly against strikes impacting QIZ business in conversations with Tel Aviv ECONOFF April 4. He said it was in Israel's national interest that this trade move forward and that he would speak to the appropriate Histadrut (union) people about it. According to Jordanian bridge officials, bridge traffic was still severely restricted as of April 8, with only a handful of trucks cleared (though 80 trucks cleared on April 7).

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COMMENT  
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18. (sbu) Trade Ministry officials told us April 9 that their chief concern is not cancellations, but a slowdown in new orders for the summer based on a perception of regional instability from the war - a perception that is keeping critical Quality Control and Compliance officers from visiting Jordan to supervise orders. We are talking to the Ministry to ascertain their approach to building importer confidence, and will coordinate a strategy with Washington to support their efforts.

19. (sbu) Meanwhile, the problems at the bridge - while unconnected to the war - have put both QIZ exporters and the GOJ on edge. This is not the first bridge closure related to Israeli labor issues (ref b), and it underscores the degree to which the Jordanian and Israeli textile sectors have become entwined through the QIZ initiative. In the long term, the problems caused by the strikes are likely to drive QIZ exporters to export more goods under the FTA as soon as tariff benefits under the two programs approach parity. This switch to FTA export is even more likely when one factors in the production cost savings of using Asian, rather than Israeli, inputs. Israel may find itself scrambling to keep QIZ business as time goes on, barring changes to their price structure, improved reliability of bridge access, and/or changes to the way the Israeli inputs are calculated (i.e., either reducing the 8% requirement or moving to a sliding scale that would allow more expensive garments to have a lower percentage of Israeli content, either of which would reduce QIZ production costs).

GNEHM